ULLETIN OF THE DEPARTMENTS OF HISTORY AND POLITICAL AND ECONOMIC SCIENCE IN QUEEN'S UNIVERSITY, KINGSTON, ONTARIO, CANADA.

NO. 16, JULY, 1915.

FEDERAL FINANCE

BY

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O. D. SKELTON.

The Jackson Press, Kingston

BULLETIN OF THE DEPARTMENTS OF HISTORY AND POLITICAL AND ECONOMIC SCIENCE IN QUEEN'S UNIVERSITY, KINGSTON, ONTARIO, CANADA.

No. 1, The Colonial Policy of Chatham, by W. L. Grant.

No. 2, Canada and the Most Favored Nation Treaties, by O. D. Skelton.

No. 3. The Status of Women in New England and New France, by James Douglas.

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No. 14, The Financial Power of the Empire, by W. W. Swanson.

No. 15, Modern British Foreign Policy, by J. L. Morison.

No. 16, Federal Finance, by O. D. Skelton.

FEDERAL FINANCE.

"A pension list of ten or twenty millions a year will be one of the best things that could happen us. Like the pensions in the United States after the Civil War, it will make a high tariff certain sure for a generation to come."—A leading Canadian business man in a recent interview

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There are signs on many hands that the question of taxation is about to receive in Canada a measure of public attention such as has rarely, if ever, been accorded it. Special phases of taxation, tariff taxes and latterly land taxes, have, it is true, been widely discussed, but the whole question has received surprisingly little share of public interest.

One reason for this lack of interest is the persistence of the tradition that we are a lightly taxed people. In the pioneer days of Canada, settlers' letters and travellers' tales were full of references to the freedom of Canadians from taxation as compared with the people of the Old Country. This belief has remained long after it ceased to correspond to facts. Public men have spoken of 'our singularly light taxation.' Side by side with such expressions, we have countless references to the heavy burdens borne by our luckless brethren over seas. The weary Titan has been pictured as staggering under an appalling load of taxes imposed for military defence and social reform.

As a matter of plain fact, the average Canadian, of recent years, has been taxed much more heavily than the average resident of the United Kingdom. The following table, compiled from British and Canadian bluebooks,* gives a statement of the figures for 1912-13, the latest year for which there exist comparable statistics. Throughout, account is taken only of taxes in the strict sense of the term: receipts from state railway or post-office, which represent voluntary payments for special services, are not included for either country. No account is taken of any burden thrown on the taxpayer by the higher prices charged for protected goods manufactured in Canada: only the taxes paid into the Treasury are included.

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*Chiefly the Statistical Abstract of the United Kingdom, the Canada Year Book, the Estimates and the Public Accounts of Canada.

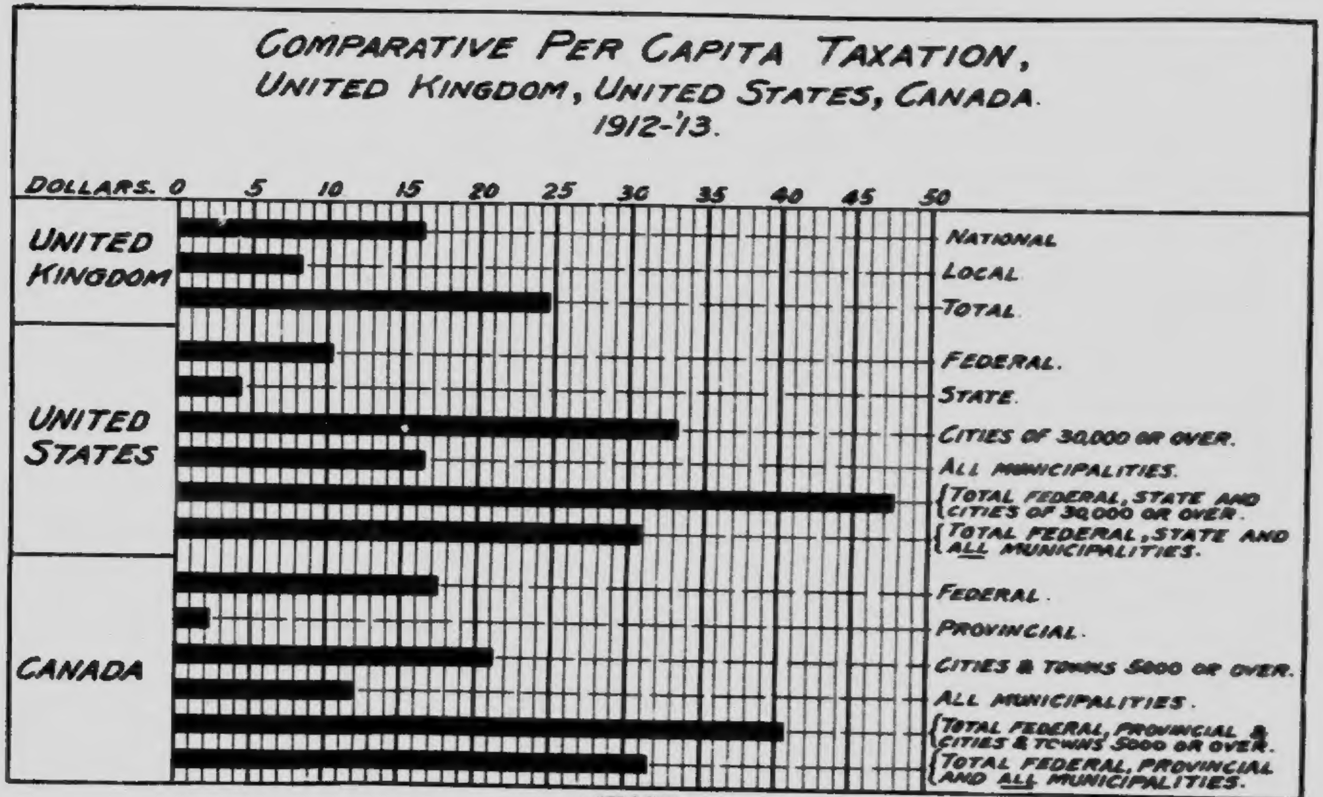

COMPARATIVE PER CAPITA TAXATION,
UNITED KINGDOM, UNITED STATES, CANADA.
1912-'13.
DOLLARS. 0 5 10 15 20 25 30 35 40 45 50
UNITED KINGDOM
NATIONAL
LOCAL.
TOTAL.
UNITED STATES
FEDERAL.
STATE.
CITIES OF 30,000 OR OVER.
ALL MUNICIPALITIES.
TOTAL FEDERAL, STATE AND CITIES OF 30,000 OR OVER.
TOTAL FEDERAL, STATE AND ALL MUNICIPALITIES.
CANADA
FEDERAL.
PROVINCIAL.
CITIES & TOWNS 5000 OR OVER.
ALL MUNICIPALITIES.
TOTAL FEDERAL, PROVINCIAL & CITIES & TOWNS 5000 OR OVER.
TOTAL FEDERAL, PROVINCIAL AND ALL MUNICIPALITIES.

CHART I.

In the provincial figures the federal subsidies, which make up half the total revenue of the provinces, and the revenues from crown domains, are also excluded. No complete Canadian municipal statistics are available; the table gives, first, the average tax levied in all the cities and towns of five thousand or over, and, second, an average for all municipalities, computed on the assumption that municipalities of less than five thousand population levy only thirty-five per cent. as heavy taxes per head as the larger communities.

TABLE I.

The British Taxpayer's Burden.

1912-13.

Population=46,000,000.

Local Rates		£ 78,000,000
National Taxes		154,750,000
Total		£232,750,000
Local Rates per head	=	$ 8.26
National Taxes per head	=	16.37
Total taxation per head	=	$ 24.[illegible]
Total taxation per family	=	$123.[illegible]

The Canadian Taxpayer's Burden.

1912-13.

Population=7,758,000.

Dominion Taxes		$135,002,358
Per head		$17.40
Provincial Taxes		17,000,000+
Per head		$ 2.20
Total		$152,002,358
Dominion and provincial taxation per head	=	$19.60
Municipal taxes in the 79 towns and cities of 5,000 or over (total population, 2,495,000)	=	$52,532,000
Average per head in these cities	=	$21.05
Average per head in all municipalities, assuming that smaller average 35% of larger	=	$11.90
Total Dominion, provincial, and larger municipalities	=	$ 40.65 per head or $203.25 per family
Total Dominion, provincial, and all municipalities	=	$ 31.50 per head or $157.50 per family

The estimate of per capita taxation in the United States given below may be added for comparison. It was presented at the meeting of the National Tax Association in Denver, in September, 1914, by Dr. John Lee Coulter, Census Expert. It is a forecast of an investigation being carried on by the United States Census Bureau. The statistics are exact as regards the expenditures of the federal and state governments, and the cities of 30,000 or over, but only approximate as regards the expenditures of other urban and all rural municipalities. It presents some interesting parallels to the estimate given for Canada, as well as some interesting differences. The 97,000,000 people of the United States paid in taxes in 1913 approximately $3,000,000,000—not quite the direct cost of the European war for six weeks.

The United States Taxpayer's Burden.

1913.

Federal expenditure per capita	$ 10.35
State expenditure per capita	4.15
Federal and state, total	$ 14.50
Municipal expenditure in the 146 cities of 30,000 or over	$ 33.08
Total for residents of these cities, federal, state, and municipal, per capita	$47.58
Total for residents of these cities, per family,	237.90
Municipal expenditure, average for the whole country	$ 16.40
Total U.S. federal, state, and municipal taxes per capita	$ 30.90
Total U.S. per family	$154.50

To estimate the relative seriousness of these burdens, it would be necessary to compare the average tax in each country with the average income. The average tax-bill in Japan is less than ours, but it takes perhaps forty per cent. of the average family's income. Unfortunately we have in Canada no basis for exact computation of income. The general consensus of opinion, however, is to the effect that, all things considered, the average of realized wealth and actual income is appreciably larger in the United Kingdom than in Canada—and this quite aside from the $3,000,000,000 mortgage in the shape of

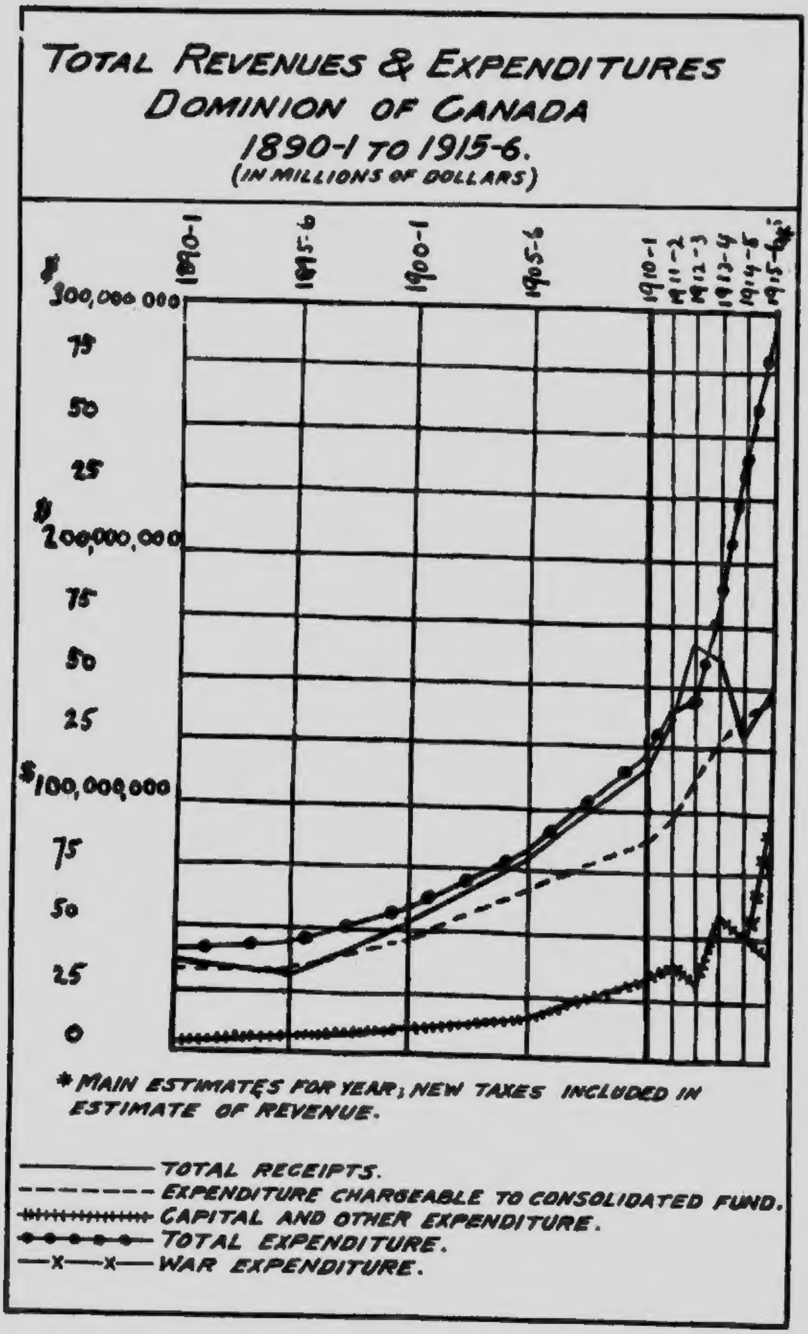
TABLE II.

Total Revenues and Expenditures, Dominion of Canada
1891-1916
(In millions of dollars).

	1890–1	1895–6	1900–1	1905–6	1910–11*	1911–12	1912–13	1913–14	1914–15†	1915–16†
Total Receipts	38.5	36.6	52.5	80.1	117.7	136.7	168.6	163.1	130.0	150.0
Expendit're chargeable to Consolidated Fund	36.3	36.9	46.8	67.2	87.7	98.1	112.0	127.3	140.0	146.2
Expendit're chargeable to Capital Account	3.1	3.7	7.6	11.9	30.8	30.9	27.2			
Expenditure for Railway subsidies	1.2	3.2	2.5	1.6	1.2	.8	4.9	58.9	50.	44.1
Other charges	0.6	.1	.9	2.4	2.9	7.1	.2			
Special War Expenditure	....	....	....	....	....	....	....	....	50.	100.
Total Expenditure.	40.7	44.0	57.9	83.2	122.8	137.1	144.4	186.2	240.0	290.3

*Since 1907, the fiscal year has ended on March 31st; 1910-11 covers the period from April 1, 1910, to March 31, 1911, and so forth.

†Estimate of Minister of Finance.



TOTAL REVENUES & EXPENDITURES
DOMINION OF CANADA
1890-1 TO 1915-6.
(IN MILLIONS OF DOLLARS)
1890-1
1895-6
1900-1
1905-6
1910-1
1911-2
1912-3
1913-4
1914-5
1915-6*
$300,000,000
75
50
25
$200,000,000
75
50
25
$100,000,000
75
50
25
0
* MAIN ESTIMATES FOR YEAR; NEW TAXES INCLUDED IN ESTIMATE OF REVENUE.
TOTAL RECEIPTS.
EXPENDITURE CHARGEABLE TO CONSOLIDATED FUND.
CAPITAL AND OTHER EXPENDITURE.
TOTAL EXPENDITURE.
WAR EXPENDITURE.

CHART II.

TABLE III

Chief Sources of Revenue, Dominion of Canada 1891-1916

(In millions of dollars).

	1890–1	1895–6	1900–1	1905–6	1910–1	1911–2	1912–3	1913–4	1914–5	1915–6
Customs	23.3	19.7	28.2	46.0	71.8	85.0	111.7	104.6		
Excise	6.9	7.9	10.3	14.0	16.8	19.2	21.4	21.4		
Chinese Head Tax..	.1	.1	.1	.01	1.1	1.5	1.7	1.3		
Dominion Lands ...	.2	.1	1.5	1.6	3.1	3.7	3.4	3.0		
Post Office	2.5	2.9	3.4	5.9	9.1	10.4	12.0	12.9		
Railways and Public Works	3.7	3.6	5.7	8.3	10.8	11.6	13.1	14.2		
Other Sources	1.8	2.3	3.3	4.3	5.1	4.7	5.3	5.7		
Total........	38.5	36.6	52.5	80.1	117.8	136:1	168.6	163.1	130.0	150.0

loans from Britain and other countries which rests upon our, say, $10,000,000,000 of total wealth, and which practically equals the total value of all the farm land and farm buildings in Canada.

These estimates have to do with the days before the Great War. What the burden of taxes, relative and absolute, will be after the war is over, not the hardiest prophet can compute. Every European power in the fray is spending many times its ordinary income, borrowing billions in the grandchildren's name. The actualities of past and present are, however, sufficiently staggering.

A striking feature of Canadian, as of United States finance, is the high proportion which municipal taxes bear to the whole. Toronto's budget surpasses Ontario's, just as New York city's debt runs close to the debt of the United States. In the immediate future, this proportion will be smaller, because of the slackening of municipal construction on the one hand and the increase of federal expenditure for war purposes on the other. Municipal finance will none the less continue of vital importance. The present article will, however, be confined to federal finance, in some of its more elementary aspects.

It may be useful to recall briefly the leading facts as to federal revenue and expenditure.

The table above, Table II and Chart II, show the growth in both items in the past twenty-five years.

The main sources of the Dominion's revenue are given in Table III. The outstanding feature is, of course, the extent to which we have relied upon the tariff on imports, and to a less extent upon the excise taxes on liquors and tobacco, for our revenue throughout this period, and in fact throughout our financial history.

The main objects of expenditure are given in Table IV. In every branch of administration, it will be seen, there has been more or less rapid growth. The debt charges have increased comparatively little, in this period, as Table V shows more in detail. Of the other items of ordinary or current expenditure, charged to Consolidated Fund, the chief increases have been in the subsidies paid to the provinces and in public works, with military and naval expenditure running them close. The post-office and the government railways show a rapid increase, which has been more than offset by the gain in

TABLE IV.

Chief Objects of Expenditure, Dominion of Canada 1891-1916

(In millions of dollars).

	1890–1	1895–6	1900–1	1905–6	1910–1	1911–2	1912–3	1913–4	1914–5*	1915–6†
Consolidated Fund.										
Debt Charges	11.7	12.8	13.4	13.4	14.1	13.[illegible]	14.4	14.7	15.4	24.1
Subsidies to Provin's	3.9	4.2	4.2	6.7	9.0	10.[illegible]	13.2	11.2	11.2	11.4
Public Works	1.9	1.3	3.3	7.4	8.6	10.3	13.4	19.0	33.2	22.3
Railways & Canals	4.5	3.8	6.3	8.7	11.1	12.3	13.7	14.9	16.7	15.5
Post Office	3.1	3.6	3.9	4.9	7.9	9.1	10.8	12.8	14.9	16.6
Militia & Defence	1.3	1.1	2.0	4.2	6.8	7.5	9.1	11.1	11.6‡	5.7‡
Naval Service	....	....	....	....	2.2	1.9	2.0	2.0	2.4‡	2.3‡
Civil Government	1.3	1.4	1.4	1.9	4.4	4.7	5.1	5.6	6.8	7.0
Legislation	.6	.9	1.1	1.3	1.6	2.4	1.3	1.4	1.9	1.8
Agric. & Statistics	.1	.2	.6	.6	1.3	2.7	2.6	3.2	3.9	4.2
Collec., Cust. & Exc.	1.3	1.0	1.5	2.1	2.8	3.1	3.9	4.7	5.2	5.2
Dominion Lands	.1	.1	.1	.4	1.8	2.2	2.4	3.2	4.0	3.4
Immigration	.1	.1	.4	.8	1.0	1.3	1.2	1.9	2.1	1.8
Capital and Special										
Canals	1.2	2.2	2.3	1.5	2.3	2.5	2.2	2.8		
Intercol. & PEI Ry.	1.2	1.3	4.1	3.9	.8	1.8	2.5	4.5		
Transcontinent'l Ry.	....	....	....	1.8	23.4	21.1	13.7	12.6	36.0	32.1
Hudson Bay Ry	....	....	....	....	.1	.1	1.1	4.5		
Welland Ship Canal	....	....	....	....	..	..	..	.9		
Public Works	.5	.1	1.0	2.3	3.7	4.1	6.0	10.1	13.6	11.9
Railway Subsidies	1.2	3.2	2.5	1.6	1.2	.8	4.9	19.0	?	?

*Main and Supplementary Estimates. †Main Estimates.

‡Apart from special war expenditure; this does not in any year cover drill halls, etc., included in Public Works.

receipts. Of the lesser items, the increase in civil government, or civil service expenditure, has been most noteworthy.

TABLE V.

Debt of Canada

(In millions of dollars).

	1890–1	1895–6	1900–1	1905–6	1910–1
Net Debt	237.8	258.4	268.4	267.0	340.0
Interest on Debt	9.5	10.5	10.8	10.8	12.5

	1911–2	1912–3	1913–4	1914–5*	1915–6*
Net Debt	339.0	314.3	335.9	446.0	586.0
Interest on Debt	12.2	12.6	12.8	13.4	21.5

*Estimates of Minister of Finance.

It is, however, the increase in capital expenditures that accounts for much of the advance on the debit side of our national accounts. In theory, Capital Account covers expenditures for distinctively permanent objects, while Consolidated Fund covers current expenditure. In practice the distinction is not always observed; some public works are charged to Consolidated Fund which might with equal logic be charged to Capital, and some expenditures on the Intercolonial, for example, charged to Capital, should more properly come out of current funds. When a Canadian finance minister announces a surplus, as was done every year from 1898 to 1914, and for rather better than half the years before 1898, he meant that total receipts exceeded expenditure on consolidated fund. At the same time it might be possible, and in fact has been true for every year since Confederation except eight,* that consolidated and capital expenditure taken together exceeded total receipts, and that our debt had been increased in spite of the flourished "surplus." Assuming that the expenditures charged to capital fund are really for permanent objects, there seems no good

*1871, 1882, 1900, 1903, 1904, 1907, 1912, 1913.

reason why they should not be so differentiated from current outlay, as they would be in the case of a private corporation, and why, further, the bulk of such expenditure should not be borrowed, if need be, and the difference between receipts and consolidated fund expenditure be accounted the proper surplus—or deficit. The bulk of such expenditure only—for, in addition tc the sinking fund, at least so much should be provided from current revenues as would correspond to the allowance a private company makes for depreciation. That much posterity may reasonably ask from us: if we do more, and pay for all our capital expenditures as well out of current taxes, posterity will bless us more abundantly, even though recognizing that our generosity was not intentional but was due to the quasi-automatic increase of revenue, following increase of imports.

So great in the past have been our federal revenues, so steady their increase, that it has been possible to an astonishing degree to pay for legitimate capital expenditures out of income. In the fifte... years from 1900 to 1914 there was spent on capital account nearly $300,000,000, as compared with about $220,000,000 in the thirty-two years between Confederation and 1899. The National Transcontinental accounted for one hundred and forty-two millions of this sum, the Intercolonial and Prince Edward Island Railways for fifty, (actually averaging more capital cost each year than when the Intercolonial was originally under construction in 1869-1876), the Quebec Bridge eleven, the Hudson Bay Railway six, canals fifty, militia ten, and public works forty-six. Yet at the close of this later period the net debt had increased by only seventy millions, and interest on debt by only two millions a year, as against an increase of one hundred and ninety millions in the period from 1867-1900 in net debt and of five millions in interest charges. Whether or not, then, these works were all wisely conceived, whether or not they were often extravagantly executed—and for the most part they will beyond doubt be of great service in the development of the country—posterity, at least, has no ground for complaint. We have handed on, as a result of the ambitious, lavish days of the early twentieth century, national works on which three hundred millions have been expended, and have asked posterity to bear only an extra two millions a year in interest. The obligation to complete those unfinished has, of course, also been handed on.

But those days are gone. It is no longer a question how much of the 'surplus' over current expenditure can be set aside for capital outlay. It is now a question how to try to make ends meet on current expenditure. With the closing of the great railway construction period and the collapse of the land boom which accompanied it, imports declined and customs revenues fell away. Even before the war broke out, the downward tendency was strong: for the first seven months of 1914—calendar year—federal revenues were twenty per cent. less than for the same period in 1913. Then came the war, cutting down revenue still further by the disturbance of shipping and financial arrangements, and increasing expenditure tremendously through the instant determination of the people of Canada to strain every nerve in the struggle for the liberties of the world. Even without the war, serious reconsideration of our financial policy would have been imperative; with the war, it becomes too obvious to need discussion.

In outlining some of the main issues involved, it may be well to discuss separately what may be called the 'emergency' policy and the 'permanent' policy, to borrow phrases from the navy debates of long, long ago.

Faced with the sudden demand for uncounted millions for war, the Finance Minister had no option but to borrow, as he forcibly put it in his 1915 budget speech:

> So far as concerns our special war expenditures, which may reach one hundred million dollars, I should be disposed, if we had not such heavy and uncontrollable capital expenditure to meet, to recommend that we should pay at least a part of it from current revenue. But it is obvious upon a consideration of the figures which I have submitted that we shall not by any reasonable supplemental taxation measures be able to close the gap between revenue and expenditure, much less to pay a portion of the principal of our special war outlay. In the circumstances I have no hesitation in proposing to the House that we shall borrow the full amount required under this heading. Canadian governments have always justified public borrowing for capital account on the principle that expenditure upon enterprises, permanent in their nature, enures to the benefit and advantage of future generations, who may therefore fairly be asked to pay interest upon the debt contracted in respect of them. If this theory is correct, and so far as I know it has never been seriously challenged, then we need have no reluctance in borrowing to meet the expense of this war, because such borrowing is for the purpose of accomplishing for

> future generations that which is infinitely more precious than material undertakings, namely, the preservation of our national and individual liberty and the constitutional freedom won by our forefathers during centuries of struggle, enjoyed by us to-day, and destined, we believe, to be ours for all time.

Fifty millions were appropriated for 1914-15, and double that amount for 1915-16; from present appearances this appropriation will be exhausted before the year is ended.

The capital and special expenditure called for, as will be seen by Table or Chart II, was reduced in 1914-15 and 1915-16 below the high-water mark of 1913-14, though still far above that of previous years. Much of this expenditure was uncontrollable, required to further undertakings already in hand, though the rate of continuance advisable in each case gives room for wide difference of opinion. More vulnerable was the decision not only not to decrease but to increase the expenditure on current account. The Main Estimates for 1915-16 called for an expenditure of over $146,000,000, the same as the Main Estimates of the previous year, but six millions more than the amount actually spent and charged to Consolidated Fund in that year. The militia and naval service ordinary expenditures were reduced by six millions, the special activities of the war superseding many routine outlays. Public works estimates charged to income were cut eleven millions, from the preposterous sum of thirty-three of the year before, but remained twice as high as in 1912 and three times as high as in 1910. The addition of over eight millions to debt charges was, of course, unavoidable. The net result of additions and reductions is that the estimates of 1915-16 call for an expenditure on ordinary current account sixty millions greater than was made in 1910-11 and one hundred millions above the figures for 1900-01.

There is much to be said for maintaining or even increasing public expenditures in times of depression. In a note contributed to this review some six years ago, the present writer advocated considering whether the principle of the government acting as the fly-wheel in the industrial machine could be applied to Canada. In times of prosperity, when capital and labor alike are scarce and interest and wages high, our governments come into the market and add to the private demand, forcing the pace still more furiously. Then when the

lean years come, and capital and men alike seek employment, governments have usually been constrained to cut down their demands and still further intensify the contrast. If it were politically feasible to lay out great construction projects for the lean years in this way, and to resist clamor for going ahead at once in good times with works approved for future undertaking, the expedient would undoubtedly do much to regularize employment. To justify, on this theory, high expenditure in depression, however, two requirements must be complied with —the expenditure must be for necessary purposes and be economically controlled, and there should have been a preparatory reduction in expenditure in the good times preceding. It is one thing to make government expenditure fall and rise to offset rise and fall in private undertakings, and another to advocate that it should always rise and never fall. At the present time, too, interest rates are abnormally high, not abnormally low.

Given this total expenditure, a hundred and ninety millions in both the past and the present fiscal year, aside from the war votes, and given total revenues falling to about a hundred and twenty, there was little question that fresh taxation must be imposed to lessen this huge gap of seventy millions. A beginning had to be made in shouldering the new burdens, and the country's credit would have suffered had no attempt been made to meet at least part of the deficit. Nor was there much question, under the circumstances, where the Finance Minister would have to look for his new revenue. Income taxes, land taxes, general corporation taxes, or other expedients would require time for investigation and for getting the machinery into play, and time was lacking. An increase of customs and excise taxes on the old lines, the introduction of stamp duties and taxes on a few classes of corporations, as actually adopted in 1914 and 1915, were undoubtedly the readiest means of securing immediate and substantial returns. Under ordinary circumstances the flat increase of the preferential tariff by five per cent. ad valorem and of the general tariff by seven and a half, would be open to grave criticism: the imposition of a tax on all but a few articles in the free list would be indefensible even on protectionist principles, and it would appear strange that fifty years' experience of tariffs had not made it possible to discriminate between different schedules, indicating in what cases a higher tariff would yield

more revenue and in what cases it would simply prevent further importation. But in the early months of the war, immediate revenue was more important than exact justice, and a flat horizontal increase had the possible advantage that it could be repealed en bloc in future. The new customs and excise taxes imposed in August, 1914, were calculated to yield $15,000,000 in a full year, and the additional taxes of 1915 about twice that sum.*

What of the future? The first task of to-day is the efficient and unresting prosecution of the war to a successful end, and no other question, howsoever important in itself, should be allowed to interfere with that endeavour. Yet, as experience so far has shown, the silver bullet is as effective as the lead one, and if the war drags on indefinitely, financial strength and soundness will be not least among the determining elements. With Great Britain compelled to give four and a half per cent. for money, our own borrowing is bound to become more difficult, and the question of ways and means more serious than in the easy-going past. And quite aside from the demands of the war, there is urgent need for at least discussing now how we are to meet the demands of the reconstruction period after the war is over.

First, can expenditure be reduced? Capital outlay, it may surely be supposed, can be substantially cut. The Hudson Bay Railway, the Welland Canal, the Quebec Bridge will have to be carried through. The National Transcontinental, however, is

*There has been much discussion in party newspapers as to whether these new taxes are properly termed "war taxes." If by war taxes we mean taxes imposed during war, or taxes made necessary, in whole or in part, by the effect of war on revenue, the new Canadian taxes are certainly war taxes, just as are the stamp taxes recently adopted in the United States. If the term means taxes imposed to meet the expenses of the war, its applicability is a matter of individual choice. The plain facts are that, with the new taxes, total revenues fall short of meeting expenditures other than for war by sixty millions in 1914-15 and fifty in 1915-16, and that this deficit as well as the whole war expenditure is met by borrowing. Or, if we include in war expenditure the five or six millions paid out of Consolidated Fund for pensions and interest on new borrowings, the deficit in meeting ordinary expenditure is that much less. Of course, if anyone will pay his taxes more cheerfully by believing they go to carry on the war, it is quite legitimate for him to figure that the whole of this hundred and six millions is met by taxes, new or old, and that we borrow to meet practically all our ordinary expenditure.

practically completed, or rather the first construction cost is provided, for no railroad is ever completed; branch lines will have to be built, and the decision of the government to operate the road from Winnipeg and Fort William to Moncton will involve further outlay for equipment. But the great trunk lines are built, and construction will be confined to cheaper branch lines for years to come: at last an end of subsidies, loans, guarantees can reasonably be expected.

Again, there is surely no room for question that substantial reductions could be made in ordinary expenditure. The country cannot absolutely require for current expenditure a hundred millions a year more than in 1901, sixty millions more than in 1911. Mr. A. K. Maclean, the financial spokesman of the Opposition, put the point frankly and forcibly in August: "I think I may in fairness say that a large proportion of the public expenditures made in this country in the past—and I am not referring to the expenditures made by one government or another—was very doubtful indeed, and I believe the public will demand that in the future a vast amount of public expenditures of the character made in the past must necessarily be abandoned or abated."

To take only two branches of expenditure. The Public Works estimates for 1914-15, main and supplementary, called for an outlay of forty-six million dollars, including income and capital expenditure. The first year Sir John Macdonald guided the destinies of the Dominion the total expenditure for all the purposes of government, ordinary and capital alike, was less than one-third of this sum (fourteen millions); the last year he was in power they were still not up to this mark (forty millions), though it had been exceeded during the years of building the C.P.R. In 1911-12 the expenditure on Public Works, under both heads, totalled fourteen, and in 1900-01 four millions. There is of course no limit to the amount that could be spent on public works; every village might have its fifty thousand dollar post office, every town its hundred thousand dollar drill hall, every creek its wharf. The present custom amounts simply to wholesale bribery of constituencies. If any member of parliament mildly criticizes the total, he is blandly asked whether he suggests that the new custom house in his own constituency should be omitted. This is supposed to be a joke on the member; unfortunately the joke is really

on the country. In theory our system of cabinet responsibility checks the wild extravagance of the United States Congress, which every session prepares its "pork-barrel," or appropriations for rivers and harbors and public buildings, but in fact we are rapidly approaching the same state of affairs.

Again, there is no question that great savings could be made in civil administration, not by cutting salaries, but by more efficient organization and lessening of overlapping and excessive appointments. The recent statement of the *Civilian*, the organ of the Civil Service, upon this point is perhaps over-optimistic, but it certainly merits consideration:

> "We have nothing to do with appraising the blame or glory of Civil Service administration as between the two parties in Parliament. But we have a responsibility as to the members of the organized and indeed of the unorganized service as well. This responsibility prompts us, as a positive duty, to point out that the public service is overmanned to a remarkable degree and on account of the overmanning, of inefficient organization, or duplications and other kinds of waste, there is a loss, conservatively estimated, of over $5,000,000 a year."

But, in public as in private expenditure, it is easier to raise the standard of living than to lower it. The most heroic Finance Minister would find himself confronted by the active resistance of vested interests, and by the heavy drag of inertia. We cannot expect very many millions saving. And on the other hand, some increases are inevitable. Debt charges are already up ten millions, and may be ten or twenty more, according to the duration of the war and of the deficits on non-war account. A heavy pension list is certain: the people of Canada will not grudge generous appropriations to do what money can do to make up for the loss of those sacrificed in the common cause. A semi-official estimate has computed the probable requirements at $18,000,000 a year for every 50,000 men in active service one year. This seems high, but there is no question that even though confined to legitimate claimants, the pension list will be a large one. Again, whatever the ultimate result of this war may be upon militarism, and however futile the policy has been proved of preventing war by making preparations for war, yet pending the coming of the new time, it is possible that in the immediate future larger naval and possibly army expenditures will have to be undertaken. Back of all these outlays there is the black cloud of railway guaran-

tees so lavishly given by federal and provincial governments alike, and quite likely, in the case of one province at least, to be shifted to the broad shoulders of the Dominion if the burden becomes unbearable. Both parties have shared in the readiness to back the railways' notes; what their relative responsibility may be, is not the present question. Every one will hope that the interest upon the hundreds of millions of guaranteed bonds can be met, or that, if not, the period of defalcation will not be long, but the possibility that the Dominion treasury will, for a term of years at least, be called upon to meet part of the burden, or to face the nationalization of the systems in question, with consequent heavy additions to de[illegible] cannot be forgotten.

The net result is, that, especially if the war is prolonged, federal expenditures will be very heavily increased. We cannot permanently borrow to meet the deficit. Whence is the new revenue to come?

From public domains and public works? The provinces may look to a great and increasing revenue from their forest lands, if properly administered, but the Dominion's timbered areas in the far Northwest are less promising. The possibility of securing a net revenue from the western lands suitable for farming has long been given up in the interest of rapid settlement: probably rightly, so far as the free homestead policy is concerned, but very dubiously, so far as the policy of land grants to railways goes—or went. From natural resources we cannot look for any great revenue.

Nor are our state-owned canals and railways likely to add much to the treasury. Years ago we adopted the policy of making the canals as free as the roads of the country, in the interest of cheap transportation. Our railways have not been made free, but at least no attempt has been made to secure any appreciable net revenue from them. One administration after another has been content when possible to make ends barely meet, on the same principle that low rates and development are better than high rates and stagnation. Sectional influences have made in the same direction, the Maritime provinces claiming that their railway should not be made a source of profit any more than the canals of Central Canada. Quite aside from this fact, the Intercolonial of old and the National Transcontinental of the future, are not fairly to be judged by

the figures in the ledger. Both were built largely for national and political purposes, the one to bind the eastern provinces to the centre, the other to give the Dominion breadth as well as length.

It might be possible, however, while keeping rates on the Intercolonial low, to secure additional revenue through it. Had the Canadian Pacific in earlier days secured the Intercolonial, it was prepared to guarantee existing rates, to maintain the staff at existing strength, and to pay a rental to the government, and it would still have expected to make a profit. How? Doubtless by the same policy which gave it traffic and profit in the west in the lean days—by building up the tourist possibilities. With good hotels at strategic points and a vigorous advertising policy, it should be possible to attract a very much larger tourist traffic to the Maritime provinces, with their splendid scenery and—for America—their wealth of historic interest. As to the National Transcontinental, much will depend upon the terms, not yet disclosed, which have been made with the Grand Trunk Pacific: is there to be an interchange of traffic at Winnipeg, or is the G.T.P. free to route its eastward freight to Chicago and Portland? Much will depend, also, on the through-rate policy adopted. With its shorter route and better grades and construction, the National Transcontinental should be able to carry grain from Winnipeg to the sea at lower rates than its competitors, and both for the sake of the west and of building up its own traffic, low rates should be given. The Canadian Pacific could stand its competition; will the declared inability of the Canadian Northern to accept lower rates , and the interest which the government as stockholder and bond guarantor has in the latter road, prevent that policy being adopted? Slower to develop will be the local traffic, from farm and forest, but, in spite of partisan critics who seem anxious to go down to posterity side by side with the croakers who a generation ago declared the C.P.R. would not pay for the grease on its axle wheels, the ultimate possibilities of this great northern empire are said by the best authorities to be excellent.* ` ,r the present, however, no net

*A leading newspaper speaks of "the manless wilderness" through which the N. T. R. runs. Have the pessimists forgotten that when the Canadian Pacific Railway Company began its work, there were not five white men between Brandon and Kamloops?

profit from this source is to be expected; in fact, a deficit on operations is not improbable for a short time.

The new revenue, then, must come from taxation. What are the feasible sources? In making a classification, it has been customary to divide all possible taxes into direct and indirect, direct being those collected from persons who are expected and intended to bear them, and indirect from persons who are expected to be able to pass them on in the shape of higher prices. The distinction is an important one. It has constitutional importance, since the British North America Act limits the provinces to direct taxation, while permitting the Dominion to levy both direct and indirect. It has psychological importance also, since the fact that the Canadian taxpayer has made not one-tenth the outcry about his national tax-bill that the Englishman made about his smaller national bill is largely because he did not know how great the bill really was, did not realize that a large part of his grocery or dry goods bill was really a payment to government—plus the merchant's profit on the extra outlay.

For the present purposes, however, it may be better to divide taxes into taxes on property, taxes on income, and taxes on expenditure.

Taxes on expenditure have hitherto been almost the sole reliance of the federal government, customs duties on goods imported into the country, and excise duties on goods manufactured and sold in the country. Both have been indirect taxes, though this is not true of the new taxes on expenditure levied this year.

Beyond question, customs duties will for years remain the chief source of federal revenue. The ease of collection and the huge amount they can be made to yield, endear them to a Finance Minister, while the readiness with which they can be utilized to give protection to home manufacturers assure the support of a powerful interest. There are, however, grave drawbacks. Not least is the rapid fluctuation in imports, and hence in customs duties. It was the tremendous if temporary rise in imports from 1909 to 1913—from 288 to 670 millions—that overflowed the treasury and made possible the rapid increase in the scale of expenditure, which we are now finding it difficult to readjust. Again, in war time or depression customs revenue falls off sharply, and puts a government mainly de-

pendant upon it in a difficult corner. In the last fiscal year imports were nearly two hundred millions less than two years earlier, and duties fell almost in proportion. Again, customs taxes, even if levied on a tariff-for-revenue-only basis, are open to serious objection on the ground of fairness. Expenditure is not a fair test of income or of taxpaying capacity. The man with a thousand a year has to spend a far bigger percentage of his income on tax-paying necessaries or semi-luxuries than the man with a hundred thousand a year. The poor man in Canada bears not only his own load but part of the load the rich should carry.

But our tariff is not merely an instrument of revenue; it is also an instrument of protection. To many this combination appears impossible. if the tariff keeps out the foreign goods that threaten the home producer, how can any revenue arise? The matter is not quite so simple. A tariff is made up of countless schedules, some of which may be almost solely revenue-producing, while others may be purely protective. Again, where a commodity is produced in the country but not in sufficient quantity to meet the demand, a tariff may yield revenue on the part imported and at the same time aid the home producer by enabling him to raise his price by all or part of the duty. Yet the more effective the duty is as a revenue yielder, the less effective must it be in fostering home production.

Some months ago, Grain Growers' locals in the west wrote Sir Robert Borden and Sir Wilfrid Laurier, professing great anxiety to know whether they should buy Canadian goods, and thus aid the Made-in-Canada movement, or buy English or American goods, and thus provide sorely-needed revenue for the government. Sir Robert promised to take the matter into his serious consideration; Sir Wilfrid replied that had the government not been extravagant, the urgent need for new revenue would not have arisen. Yet, however adroitly statesmen may sidestep it, the dilemma remains. Sir Edmund Walker, emphasizing the need for lessening our heavy debts to outsiders, recently declared that "every dollar's worth of merchandise imported which could be made at home, or which could be avoided as an expenditure altogether, is a sin against Canada at this moment." Doubtless for the moment this is the greater need, but it bodes ill for revenue.

At the beginning of this article a leading Canadian business man was quoted as declaring that the need for greater revenue made a high protective tariff certain sure for another generation. Taking it for granted that customs duties will remain the chief reliance of the Treasury, does it follow, as he implied, that it is by raising or maintaining the distinctively protective schedules that the desired revenue is to come?

If we assume for the present, that the tariff is to be maintained both as a means of revenue and as a means of protection, two elementary requirements only may be suggested. In the first place, in a business-like administration of the tariff, it should be stated frankly which schedules are relied on to produce a revenue, which are in effect prohibitive, and which give a measure alike of revenue and of protection. Some of the more obvious facts in this connection may be gleaned by a study of the customs from outside and may be discussed in a later article, but complete and authoritative analysis by the departments in charge is badly needed. Again, what do the public, at least, or members of parliament, know of the actual facts of protected businesses? The theory of protection is simply that, in the belief that such aid will in the long run give the country varied industries producing at a low price, the people consent to pay for a time such higher prices as may be necessary for the products of certain home producers. What is the fact? What stock has ever been taken by our government authorities? What measure of aid is really required, what profits are being made in each protected establishment to which every inhabitant of this country is paying a bonus? Britain and Germany are levying special taxes on "war profits"; we do not even know what peace profits are. Perhaps it would be "paternalism" to demand a statement of profits, though apparently it is not paternalism to give the bonus. If these two steps were taken, measures which are obvious business requirements, the whole tariff question would be much simpler to deal with.

Excise duties in the past have been confined to a few articles of wide use, considered, however, to be luxuries and more or less under the moralist's ban—chiefly liquors and tobacco. They have been fertile sources of revenue, the total receipts growing from ten millions in 1901 to twenty-one in 1913. In spite of the advance of temperance legislation, the per capita

consumption both of spirits and of beer has increased by about half in the past ten years. It may be surprising to some to note that the average Canadian now drinks far more spirits than the resident of the United Kingdom (1.11 gallons in 1913 as against .69), though we are far behind as to beer (7 gallons as against 27.3), and take only half as much wine (.13 as against .25 gallons). In view of that fact, and of the desirability of encouraging the consumption of malt liquors at the expense of spirits, it is worth considering whether the present tax on the latter could not be still further increased. True, the Canadian tax, as increased in August, is now $2.40 per gallon, as against only $1.10 in the United States, but the United Kingdom before the war levied $3.60 and has added a shilling or so since. Beer pays four or five cents a gallon in Canada, as against a little more than three in the United States, and about six in the United Kingdom before the war and nearly twenty since. Cigarettes are taxed two or three times as heavily in Canada as in the United States, but cigars the same, three dollars per thousand, except that in the United States cigars weighing less than three pounds a thousand are let off with a seventy-five cent duty.

This year for the first time excise taxes have been levied directly on the consumer. Every purchaser of a railway or steamship ticket and every sender of a telegraph message is required to pay a small tax, to be collected by the company and transmitted to the government. Further taxes are levied by means of stamps upon cheques and bills of exchange, money orders, bills of lading, patent medicines, bottles of wine, and upon letters and post cards. With the exception of the last-mentioned, most of these are reasonable, as taxes go, and it is possible they will be continued for a time after the war. The tax upon cheques may impede business to some extent, but the experience of the United Kingdom has shown that this is not a serious objection in the case of any transaction worth using a cheque for. The total yield will not be great.

So much for taxes on expenditure. Taxes on property have been nearly unknown in federal finance. This year a special form of property tax was levied on a few large corporations. Chartered banks are taxed one per cent. upon the average amount of notes in circulation, roughly equivalent to

one per cent. on their capital. Loan and trust companies pay one per cent. on their gross income from Canadian business, and insurance companies other than life, marine, fraternal and purely mutual companies pay one per cent. on net premiums. These taxes together yield about $1,500,000. In themselves they are reasonable. It might be questioned whether the tax on bank circulation will not discourage somewhat the opening up of branches in new sections, as the inevitable loss on new branches for some years has hitherto been offset by the profit on note circulation; on the other hand, circulation is possibly a fairer test of relative ability to pay than capital, though neither is as fair as income.

Whether these institutions should be the only ones taxed, or whether all other corporations should be taxed on property or income, is a more important question. Why are they taxed? Because it is assumed that they have large profits. The Minister of Finance declared that, after careful consideration, it had been decided not to tax telegraph companies, because "their profits were not large." Really, therefore, it appears that net income is the basis upon which, consciously or unconsciously, these special taxes have been framed. Why not, then, make income the basis in the case of other corporations, and of individuals? But of this later.

It has been proposed that the Dominion should follow the example of Ontario and Nova Scotia and levy a tax of as many mills as may be found necessary upon the existing assessment of every municipality. So far as the provinces are concerned, this tax has much to recommend it, in ease of collection and greatness of yield. Although imposed to meet war-time exigencies, it is more than probable that the tax will be retained by the provinces after the war. If so, the questions of reaching personal property not covered by the Business Assessment, of equalizing assessment between different urban municipalities and between country and city, the taxing of property exempted by the municipality or the exemption by the province of a minimum of a thousand or so, will have to be faced.

For the Dominion, the proposal has the same attractive promise, at first glance, of immediate and large yield. However, the drawbacks seem decisive against it. First would rise the nice constitutional question whether the Dominion could do what Ontario has done, order the municipalities to collect

the tax along with their own taxes, and pay it over. If not, new machinery of collection would have to be devised. Again, there is the point of the unfairness of taxing all property regardless of whether it is bringing in a revenue or regardless whether the nominal owner is in debt for practically the full value of his property. This drawback exists in the case of a property tax by any authority, but the unfairness becomes intensified when not one but three authorities heap up taxes on the one basis. But perhaps more decisive is the astounding inequality of local assessment. In most provinces, there is a rough equality in the standard of assessment, though in the absence of an equalizing board this will tend to disappear if the province raises its tax and makes it an object to a town to have a low nominal assessment. But as between different provinces and sections there is an extraordinary difference. This may perhaps be most readily seen from the following table, which indicates that the assessment valuation of taxable property in the two cities of Calgary and Edmonton is greater than the valuaton of every town and city of five thousand and over in Canada east of Toronto—Montreal and its satellities alone excepted.

TABLE VI.

Comparative Assessed Valuation of Canadian Towns.

City	*Population 1911 Census	Assessed Valuation of all Taxable Prop'ty, 1913
Calgary	43,704	$133,023,618
Edmonton	24,900	202,247,890
Total	68,604	$335,271,508

City	Population 1911 Census	Assessed Valuation of all Taxable Prop'ty, 1913
Charlottetown, P. E. I.	11,198	$ 4,468,635
Amherst, N.S.	8,973	4,361,040
Dartmouth	5,058	2,512,923
Glace Bay	16,562	4,047,353
Halifax	46,619	27,913,150
New Glasgow	6,383	4,082,140
Spring Hill	5,713	788,180
Sydney Mines	7,470	1,749,415
Sydney	17,723	8,094,380
Truro	6,107	3,372,683
Yarmouth	6,600	3,690,000
Frederic'n, N.B.	7,208	5,683,283

*In the absence of complete and authoritative estimates of the population of all the towns and cities listed in 1913, the census figures of 1911 are given. Calgary and Edmonton, of course, increased faster between 1911 and 1913 than the average eastern municipality.

Moncton	11,345	7,600,000
St. John	42,511	33,196,300
Fraserville, Que.	6,774	2,296,070
Hull	18,222	8,276,274
Joliette...... ...	6,346	2,589,220
Levis	7,452	2,900,000
Sherbrooke	16,405	8,829,860
St. Hyacinthe ..	9,797	3,345,325
Sorel	8,420	2,478,700
Thetford Mines ..	7,261	2,229,265
Three Rivers ...	13,691	10,703,475
Valleyfield	9,449	5,106,850
Belleville, Ont. .	9,876	5,077,432
Brockville	9,374	3,711,445
Cobourg	5,074	1,905,967
Cornwall	6,598	2,098,138
Kingston.......	18,874	10,408,097
Oshawa	7,436	2,823,666
Ottawa	87,062	100,158,087
Pembroke	5,626	3,169,730
Peterborough ..	18,360	10,535,622
Port Hope	5,092	2,334,848
Smith's Falls ..	6,370	3,596,079
Total	483,029	$306,094,080

Proud as Edmonton justly is of its rapid progress, it is hardly likely that its most patriotic citizens would carry pride the length of wanting to pay more than seventy times as much Dominion taxation as thriving Oshawa, or more than all the towns in the Maritime provinces and in Quebec except Montreal. To use the local assessment as a basis of taxation, would, then, be plainly most unfair.

The proposal to tax one form of property, land values, has been advocated even more strongly Here, too, a new and independent assessment would evidently be required, and if it is really revenue that is sought by this proposal, the owners of unsaleable town lots are not the readiest source at present. Quite aside from these immediate objections, the country is not yet a convert to the single tax gospel, or in a mood to favor all other forms of wealth than land. Undoubtedly the growth of land values is in unusual degree—the difference is only one of degree—due to the activities of the general community, and this constitutes a ground for special taxation of such increased value. The fairest way to tax this 'unearned increment' is to tax it—to levy a special tax on all increase in value, above a certain percentage, as shown by the annual assessment. This would tax only land that had increased in value, and not, like the exemption of improvements, all land, whether its value has risen or fallen. Such a tax would of

course be fluctuating, accruing chiefly in boom times, but as these are also the times of rapid increase in public construction work by the cities, this would fit in well. Such a tax might well be divided between city or county and province; the two claimants could use it all, and the diversity of conditions throughout Canada would besides make any attempt to raise a share of federal revenue as well by this means inadvisable. Now when land values are high such a tax could be instituted, especially in the east, without any shadow of unfairness to land owners, even though it might be some years before an appreciable revenue was obtained.

The only other form of property tax which need be considered is a succession duty or inheritance tax. It has many advantages, particularly that evasion is difficult, if kept within bounds, and that it taxes most those best able to bear it. The fact that some of the provinces, notably Ontario, already impose a heavy tax of this kind is the chief objection, though this is not insuperable. The total succession duty collected by the provinces in 1912-13 was slightly under three millions. The new taxation has to come out of the pockets of the people somehow, and whether out of one pocket or out of two in the same suit is not the main consideration. Provided that the increased levy were not so great as to stimulate evasion by transfer before death—and British and French experience shows that a pretty high level can be adopted—this source of new Dominion revenue has much to recommend it.

Finally, we have the income tax. Or rather, we haven't it. Unlike the majority of nations, we have hitherto made not the slightest endeavor to use this great engine of taxation. So long as revenue could be raised in abundance by customs and excise taxes, Ministers of Finance, the first maxim of whose profession was long ago stated to be to secure as many feathers with as little squawking as possible, have naturally declined to favor it. Mere considerations of justice were not enough. But now necessity adds its weight to justice. For the first time in our fiscal history the Minister of Finance found it advisable this year to devote a part of his Budget speech to a serious discussion of the income tax. True, he urged strong objections against its adoption, but the important point was that it had to be faced at last. Like a politician, a proposed reform would rather be attacked than forgotten.

The detailed form such a tax should take is a matter for careful discussion. Possibly a tax on all incomes over $1200, with an exemption of $1200 on all incomes up to $6000,* and with additional exemption in the case of married men and for each child, would be advisable.

What, briefly, are the merits of an income tax? Perhaps most important is the fact that it is on the whole the fairest test of ability to pay. Expenditure is not a fair test of that ability. Under a system of taxation which takes expenditure as the basis, the poor man, as has been said above, is compelled to pay more heavily than the rich. His expenditure swallows up practically all his income, while the millionaire, even with lavish personal and household outlay, usually spends only a minor fraction of his income. Again, given two men with the same income, one with a large family to support and another with no one but himself to spend for, a system of taxation according to expenditure, such as we now have in the Dominion, piles up the greater tax on the back of the man who already has the greater burden A straight income tax of the older type would tax both the same; an improved income tax, as modified by recent developments, notably in the United Kingdom and the United States, would take the size of family into account in determining the amount of exemption allowed, and thus equalize the burdens fairly.

Nor is property an entirely adequate test. In the long run the value of property used for production must correspond to its yield, must equal the capitalized value of its possible income. But taxes are paid in the short run. Here are two railroads which have cost the same amount to build: one runs through fertile, well settled territory, and has a large surplus; the other runs for hundreds of miles through wilderness. Should both pay the same tax?* One manufacturer is just trying to build up a market: another, with plant of equal value, has a market and profit secured; one farmer has a good year,

*That is, the man with $1300 a year, and entitled to no other exemption, would pay the stated rate on $100; the man with $3000, on $1800.

* "In dealing with taxation measures, we have to deal with classes. We cannot single out for special taxation a wealthy corporation or individual, and pass over those less wealthy of the same class."—Hon. W. T. White, Hansard, March 18, 1915.—True, and an admirable argument for an income tax.

another, a bad one—and yet the property tax falls alike on one and the other. A property tax exempts men in high salaried positions, as compared with men drawing the same income from a factory. It is true the salaried man should be taxed lighter, since his income ends with death, while the man with property can hand down his principal to his heirs: on this account it is fair to include both property and income taxes in the fiscal system, or to discrimnate between 'earned 'and 'unearned' incomes, as has been done in Britain of late years. Again, one man owns a store without incumbrance; another has a mortgage on his to two-thirds its value. Should both be taxed the same? Or can all the countless forms which property takes be reached adequately by such a tax?

Income is not a sole and perfect test of ability to pay, but it is more adequate than any other single test. Taxes on property, taxes on expenditure will and should long remain as as part of our fiscal system, but to redress the balance somewhat a tax on income should also be included.

The other chief merit of an income tax is one which it has in common with all direct taxes—the merit of being felt. So long as we pay our taxes without knowing it, so long will extravagance be at a premium. An income tax would not entirely stop our taxes going up but at least it would impose some drag on the aeroplane—if an aeroplane is a correct simile for taxes, seeing that aeroplanes usually come down some time or other.

What are the objections to an income tax? Objections there are, real and weighty. They have not sufficed to prevent nearly every important country from adopting and extending it, but they certainly require careful consideration. They have been stated in brief and very forceful form by the Minister of Finance in the last Budget debate, and we cannot do better than take his summary.

> "It will be observed that I have in these special taxes omitted an income tax upon individuals, about which there has been some discussion since the outbreak of the war. The matter has had the consideration of the government, and it appears clear to us that such a tax is not expedient, at all events for the present. Under the British North America Act, while the Dominion may impose direct or indirect taxation, the provinces are restricted to the former. At present under legislation existing in certain of the provinces income is subject to taxation by municipalities,

and in two instances by the provinces themselves. In other provinces no income tax exists, though in lieu thereof a business tax is levied upon incorporated companies. In order to bring into force an income tax, the government would be obliged to create machinery for assessment, revision and collection. This would involve a heavy expense as compared with the amount which would be realized. Taking the income tax of the United States as the basis, it would appear that Canada could hardly expect to derive from a similar tax a sum in excess of two million dollars, from which would have to be deducted the heavy expense connected with its administration. My chief objection, however, to an income tax is the fact that the several provinces are also likely to be obliged to resort to measures for raising greater revenue, and I am of the view that the Dominion should not enter upon the domain to which they are confined to a greater degree than is necessary in the national interest. There is another feature of the income tax which makes it unsatisfactory for the purpose of Dominion finance; I refer to the length of period which must elapse before it becomes productive. In Britain, where the tax is the chief source of revenue to the Imperial Government, there is no municipal taxation upon incomes. There is also the important difference that in Britain taxable incomes are derived largely from investments. They have therefore a settled and permanent character, are ascertainable with fair accuracy, and are capable of being levied upon at the source. With us this is not the case." *

First may be noted the objection that a long period would elapse before such a tax could become productive. In the United States, opponents of an income tax used to urge that it should not be imposed in peace, but should be reserved for great nàtional emergencies, such as war. When war comes, we are told an income tax cannot be devised in time to be of any service. Q. E. D. So far as the immediate necessities of the first war budget were concerned, there is no question that this objection was sound. An income tax requires time, time for thorough investigation as to the best form to adopt, time for getting the machinery of assessment and collection into working order. It could not give results as immediate as a customs or excise tax. But that objection has no force for the future. The war may last a long time; in any event, there will long be need for heavy expenditure, and the sooner we begin to plan our permanent policy the better.

*Hansard, Feb. 11, 1915.

Next, as to smallness of yield compared with expense. Mr. White computes the yield for Canada at two million dollars a year. Evidently this result has been arrived at by taking the yield of the United States income tax on individuals for 1913-14, $28,253,534, and taking one-fourteenth of this sum,—the ratio of our population to that of the United States. (It is a useful reminder in our spread-eagle or spread-beaver moments to recall that the growth of population in the United States since the Census of 1910 is equal to our whole present numbers). This computation, however, is not a proper one. The United States returns for 1913-14, were only for ten months, and they were for the first year's working, when the machinery was not fully in force. The figure of $28,000,000 does not represent the full income tax secured; income derived by individuals from dividends, etc., is not included since by a provision of the same law corporations pay direct on their net income: the amount received from the combined tax was really $71,000,000. Further, the United States tax gives the preposterously high exemption of $3,000 to single persons and $4,000 to married couples. What the cost of collection was, has not been stated; it was not high, due in part to the fact that the burden of collection and exemption was thrown, to an undue extent, upon banks and other private corporations.

When seeking an estimate of yields and cost, why 'look to Washington'? In the United States itself the well-devised income tax levied by the state of Wisconsin brought in $3,500,000 in 1912, and $4,000,000 in 1913; it cost less than three per cent. to administer, while our own customs revenue, from 1901-1913, cost 3.6 per cent. to collect. Or look to London. The British income tax, for the last year before the war, yielded $225,000,000: adopting the same population-ratio method of comparison, we should get in Canada, not two millions, but over thirty-seven millions. Cut that down as you will for this and that allowance, and a very respectable sum indeed will remain.

No, the weightiest objection to the income tax will be the opposition of those who fear it will take too much from them, not of those who fear that it will yield too little.

Mr. White's chief objection, however, is the desirability of leaving this and other direct taxes to the provinces. True, the provinces will have to spend still larger sums in the future, as the demands of good roads, public works, the better administration of justice, and education increasingly are felt. Yet in

1912-13 the total expenditure of the nine provinces was only $52,000,000, (British Columbia leading with fifteen, and Ontario following with ten), as compared with $144,000,000 by the Dominion. Considering, further, that federal subsidies provide nearly twelve millions of the provincial funds, that nearly all enjoy great national resources, capable of yielding permanent and increasing revenue, and that they nearly all utilize succession duties and taxes on financial and transportation corporations, to say nothing of the new tax on municipal assessment, it would appear that there is no need for the Dominion to refrain from direct taxes on this account. For that matter, the new Dominion taxes on banks and insurance companies are equally direct taxes.

But this is not all. One of the advantages of a federal income tax would be precisely that the provinces could use the same basis for taxation. If a tax is fair and the basis not a narrow one, what objection is there to both using it? Of course both province and Dominion could not secure all their revenue by each taxing, say, banks alone, or from an unearned increment tax on land alone, but income is not a limited basis: out of income most taxes must come, on whatever principle they may be levied. The larger the area of assessment of an income tax, the less the risk of evasion; a municipality cannot possibly collect such a tax fairly, when the sources of income, from corporations or other businesses are nation-wide or even international. That, along with the failure to provide adequate assessment machinery, is why the income tax as now levied in Ontario is and must be largely a farce. So the Dominion can much better ascertain total income than any province. Given this Dominion assessment, then, what is there to prevent any province co-operating and adding so many mills on that part of the Dominion assessment falling within its jurisdiction? The Dominion, for its part, would co-operate, rather than increase the subsidies it pays, and there is no question that it is better that the province which spends the money should also raise the money.

The final objection is the fact that in Britain incomes are to a greater extent than in Canada derived from investments, and are therefore more settled, more easily ascertained, and more easily taxed at the source. The statement involves the only really serious difficulty in the way of an income tax—the

question of administration. As the objection is usually put, an income tax is certain to be evaded. Is this inevitable?

In Great Britain, the principle of collection at the source is adopted as far as possible. The landlord's income tax is paid by the tenant, who deducts it from his rent, and the shareholder's or bondholder's income tax is deducted by the company from the dividend or interest paid. The income from "profits" however is ascertained by the declaration of the business man, reviewed by the government authorities. Now, if stoppage at the source were the only adequate means of collecting an income tax, it could be adopted in Canada without difficulty so far as rentals, dividends and interest, and salaries are concerned; the fact that these sums would bear a smaller proportion to the total income than in Britain is an objection, but not a fatal one. There has been a rapid growth in Canada of corporate activity and corporate wealth, and an increasingly large proportion of total income takes the above forms.

However, it is by no means certain that stoppage at the source is the best method. As a matter of fact, this method is now largely abandoned or supplemented in Britain itself. Anyone whose modest rentals or dividends have been stopped at the source, if his total income falls under the £160 which is entirely exempt or under the £700 which is partly exempted, may recover some or all of this amount by making a declaration of his total income. As a matter of fact, then, the great bulk of income taxpayers do make a personal declaration of total income. Again, since the introduction of the supertax (a heavier tax on all incomes above £5000, upon the amount by which they exceed £3000), stoppage at the source has been abandoned here also in favor of declaration plus official revision.

The British system is a complicated one, instituted so long ago that modern business arrangements have adapted themselves to it. It does not follow that it would be best for another country to adopt. The system of requiring every taxpayer to make a declaration of total income and then checking this by "information at the source," information drawn from the same agencies which under the British system would have to collect and forward the tax, seems to be preferable. This system is advocated by many authorities in the United States, and has been worked out with much success by the Wisconsin

Tax Commission.* The new French income tax also, adopts a system of personal declaration rather than of stoppage at the source.

But this is not the time, and space forbids, to discuss the many important questions of administrative detail, important as they are, which would have to be considered if once the principle of an income tax were accepted. The experience of the United Kingdom, of France, of Denmark, of Holland, of Austria and Hungary, of Italy, of Japan, of Norway, of Sweden, of the United States, of Wisconsin, and of many other communities which rely upon an income tax for nearly half their tax-revenue, assures us that whatever the problems may be, they have been and can be solved. Anyone who fears to adopt an income tax solely because of the risk of evasion must believe either that Canadian citizens are liars beyond all other men or that Canadian statesmen and officials are incompetent beyond all others.

A fourth division of taxes might have been made—poll-taxes. They have, however, almost entirely disappeared from modern fiscal systems. We have an interesting example of such a tax in the $500 head tax levied on every Chinaman of the laboring class entering Canada, a tax divided between the Dominion and the province of entry. British Columbia householders have strong convictions as to the incidence of this tax, by the way. The rumor that the Minister of Finance is strongly in favor of imposing a thumping poll tax on all bachelors is probably a report via Sayville, New York.

O. D. SKELTON.

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*"The statement so often made that an income tax 'makes a nation of liars' can easily be shown to be false. Any person who, like the writer, has had occasion to review and test the correctness of thousands of income tax returns will be impressed by the evident truthfulness and honesty with which the vast majority of such returns have been prepared. In one thousand returns which were defective or erroneous it was found that one-third contained errors which had the effect of *increasing* the tax. Of the remainder the great majority were erroneous through obvious ignorance or misunderstanding of the provisions of the law. The number in which there was any evidence of a deliberate attempt to defraud the law was very small—safely under five per cent."—K. K. Kennan, Supervisor of Income Tax, Wisconsin, in *Annals of American Academy*, March, 1915, p. 75.